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UNCLAS SECTION 01 OF 02 KABUL 000323

DEPT FOR SCA/FO, SCA/RA, AND SCA/A  
DEPT PASS FOR AID/ANE  
DEPT PASS USTR FOR DELANEY AND DEANGELIS  
DEPT PASS OPIC  
DEPT PASS FOR TDA FOR STEIN AND GREENIP  
USOECF FOR ENERGY ATTACHE  
CENTCOM FOR CSTC-A  
NSC FOR JWOOD  
TREASURY FOR MHIRSON, ABAUKOL, BDAHL, AND MNUGET  
OSD FOR SHIVERS  
COMMERCE FOR DEES, CHOPPIN, AND FONOVIKH

SENSITIVE

SIPDIS

E.O. 12958 N/A

TAGS: [EFIN](#) [PGOV](#) [PREL](#) [EAID](#) [ECON](#) [EAIR](#) [AF](#)

SUBJECT: CHANGE AT THE TOP OF AFGHANISTAN'S FINANCE MINISTRY

REF: A) Kabul 317 B) Kabul 259 C) 08 Kabul 3334

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¶1. (SBU) Summary. Finance Minister Ahadi has resigned to run for president and been replaced by acting Transport Minister Zakhilwal, a technocrat whose political star has been rising since he rescued the Haj-flights operation late last year. Zakhilwal, a strong proponent of private sector development, is a good choice but inherits the top job at Finance at a tough time. Among other things, he must ensure Afghanistan does not fall off its IMF program and guide the FY 2009-10 budget into law. End Summary

¶2. (U) As anticipated Ref B, Afghan Finance Minister Anwarulhaq Ahadi February 5 submitted his resignation, and President Karzai accepted it. This followed endorsement of Ahadi by some members of his Afghan Millat party last week as candidate for president in this year's election. Karzai has named Dr. Omar Zakhilwal as the new Finance Minister.

¶3. (SBU) Zakhilwal has been wearing three hats in the government. Since November he has been acting Minister of Transport and Civil Aviation, a job Karzai named him to after dismissing the last minister for alleged corruption and mishandling the Haj flights to Saudi Arabia. Having spent most of his first month as Transport Minister focused on Haj operations, Zakhilwal was just settling into other aspects of the job, for which he had little background, and had made plain that his tenure would be temporary. Throughout this time, Zakhilwal retained his other two positions, Chief Economic Advisor to the President and President of the Afghanistan Investment Support Agency (AISA). As Finance Minister, Zakhilwal is expected to retain only the former position.

¶4. (SBU) Zakhilwal (see bio note below) is a staunch proponent of private sector development and is widely considered - including, importantly, by Karzai - to be very competent. That said, Ahadi's will be large shoes to fill at the Finance Ministry, and with a number of economic policy issues on the front burner, this is arguably not the best time for turnover at the top of this key department.

¶5. (SBU) IMF program. Ref A describes the state of play in

Afghanistan's relations with the IMF. In brief, Afghan performance under the PRGF program has slipped, and the government must fulfill several prior actions by June at the latest to put the program back on track. Failure to do so could have significant financial consequences for a government already unable to pay its own bills. Zakhilwal will be keenly aware of the importance of good relations with the IMF. But he is mainly a technocrat; his political skills will be required with Parliament and other ministries to ensure the GIROA meets Fund conditions, and these remain largely untested. Once through this immediate challenge, Zakhilwal will need to improve on Ahadi's efforts to generate more revenue and work toward medium-term fiscal sustainability.

¶6. (SBU) Afghan budget. The government's proposed budget for FY 2009-10 has just been presented to Parliament. Ahadi did the hard work of preparing the budget, imposing necessary spending restraint on fellow ministers. Zakhilwal must now guide it into law, working with MPs, many of whom are famously unschooled in market economics but likely to be certain the government is not doing enough for their districts. He must also manage the government's finances under circumstances of very low cash balances.

¶7. (SBU) ARTF benchmarks. MOF has been donors' main interlocutor in efforts to establish an "economic reform window" in the Afghan Reconstruction Trust Fund (Ref C), with Ahadi making key decisions. Specific benchmarks still need to be agreed, against which Afghan performance would be assessed for eligibility to tap funds from this window.

¶8. (SBU) Regional economic cooperation. MOF often chairs the Afghan delegation to international economic meetings, even when the agenda includes topics where other ministries have the lead. This was the case with the Pak-Afghan Joint Economic Commission in November, despite the Commerce Ministry's supposed lead on trade policy, and could be for negotiations, not yet firmly set, on a new Pak-Afghan

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Transit Trade Agreement. Coordination with Commerce will be required to finalize a new Tariff and Trade Policy and launch the WTO accession process, both priorities of Commerce Minister Shahrani.

¶9. (SBU) Karzai has named Noorullah Delawari, Advisor to the President on Banking and Private Sector, to head AISA. A USAID consultant, Delawari is well and favorably known to the U.S. Mission and was the first President of AISA. He has told EconCouns that one of his early priorities will be to re-energize the moribund, cabinet-level High Commission on Investment, to lend high-level support for promotion of foreign investment.

¶10. (SBU) Zakhilwal's departure leaves veteran civil servant Engineer Raz Mohammad Alami as acting Minister of Transport and Civil Aviation until a permanent replacement is named. Alami knows the aviation business and is considered competent but as an acting minister is unlikely to launch new reform initiatives despite the serious need for such at this ministry.

¶11. (SBU) Bio Note. Prior to becoming President of AISA, Omar Zakhilwal served as the Chief Policy Advisor at the Ministry of Rural Rehabilitation and Development. He has been a member of the Supreme Council of Afghanistan's central bank and teaches economics at Kabul University. Zakhilwal is a Canadian citizen, has family in Canada, worked previously as a Senior Research Economist for Statistics Canada, and holds a Ph.D. in economics from Carleton University in Ottawa, where he also lectured in economics.

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